

Stanbic Bank Kenya PMI™

compiled by markit

Kenyan private sector contracts for first time in series history

Key findings:

- **Headline PMI dips below the 50.0 no-change mark in March**
- **Expansion of new orders eases to a survey-record low**
- **Output charges fall for the first time in a year**

The upturn in Kenyan private sector business conditions came to an end during March, following more than three years of sustained expansion. This reflected a downturn in Kenyan private sector output for the second consecutive month. Meanwhile, growth of new business eased to a survey-record low. The rate of job creation was only marginal, while there was evidence of ongoing pressure on operating capacity. Despite increased cost burdens, firms offered discounts to attract customers amid intense competition.

The headline figure derived from the survey is the Purchasing Managers' Index™ (PMI™). Readings above 50.0 signal an improvement in business conditions on the previous month, while readings below 50.0 show a deterioration.

After having slipped to a survey-record low of 50.1 in February, the seasonally adjusted PMI dropped below the crucial 50.0 threshold for the first time in the survey's history during March. At 48.5, the latest figure pointed to a modest deterioration in the health of the private sector.

A key driver of the overall contraction was falling output at the end of the first quarter. In fact, the rate of contraction was marked overall. Panellists linked the fall in activity to weaker underlying demand conditions, and lower willingness to spend. Nonetheless, new orders expanded for the thirty-ninth

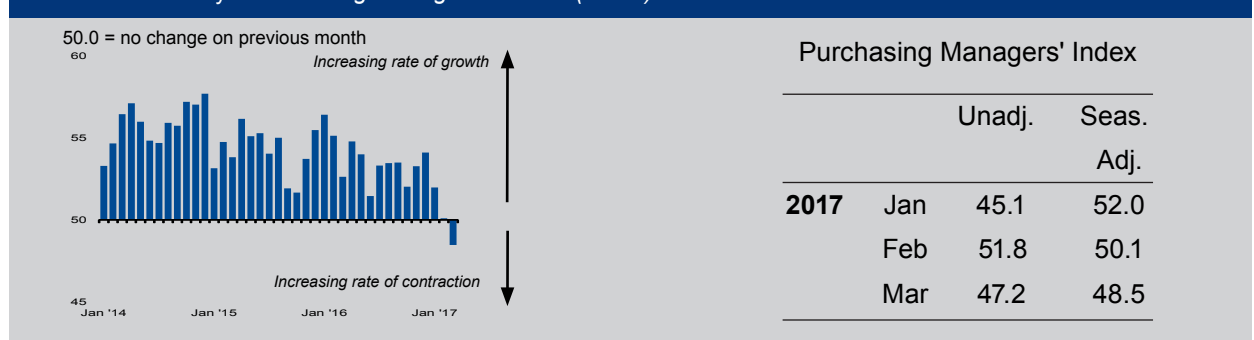
consecutive month during March. The rate of growth eased to a survey record-low and was marginal overall. Companies that noted an increase in new business attributed this to a rise in client demand and new projects. Data showed that higher exports contributed to the upturn in total new work. A number of firms commented on increased demand from abroad and new export markets.

Outstanding business increased again during March. Anecdotal evidence highlighted an increase in incoming new business alongside financial constraints faced by customers. Despite increasing work-in-hand, the pace of job creation at Kenyan private sector firms was only marginal.

Mirroring the trend for new orders, expansion of buying activity eased again in March. Consequently, the rate of stock accumulation was modest overall and the weakest in nine months. Greater input stocks was reported to reflect expectations of improvements in demand in the months ahead.

Meanwhile, a marked rise in purchase prices meant that total cost pressures intensified during March. Anecdotal evidence linked the rise to a general increase in market prices for raw materials, alongside higher fuel prices. In spite of increasing cost burdens, Kenya's private sector firms offered discounts amid reports of intense competition.

Stanbic Bank Kenya *Purchasing Managers' Index™ (PMI™)*

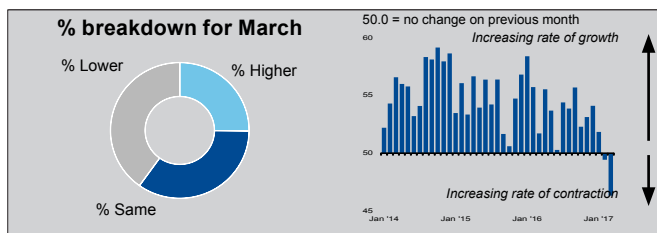


The Stanbic Bank Kenya Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the Kenyan economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI below 50.0 indicates that the economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index. Purchasing Managers' Index™ and PMI™ are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. Stanbic Bank use the above marks under licence. IHS Markit is a registered trade mark of IHS Markit Group Limited.

Output Index

Q. Please compare your production/output this month with the situation one month ago.

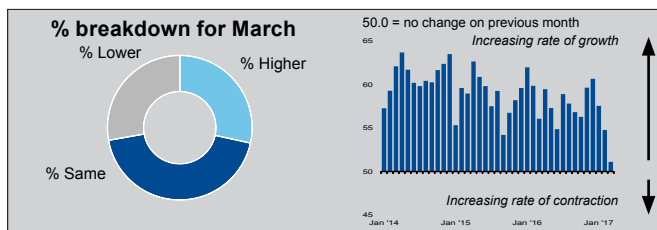
The recent downturn in Kenyan private sector output continued for the second consecutive month. The rate of contraction quickened from the preceding month and was marked overall. Subdued underlying demand and lower willingness to spend were reported as factors behind the decline in output.



New Orders Index

Q. Please compare the level of new orders received this month with the situation of one month ago.

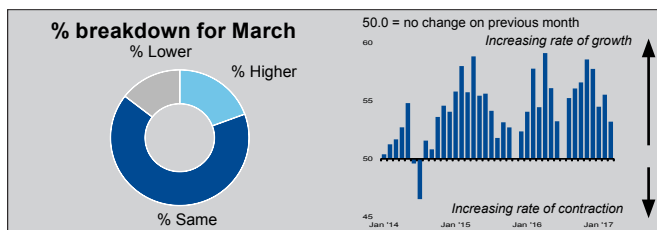
In contrast to the trend observed for output, new orders rose at Kenyan private sector firms at the end of the first quarter. That said, the rate of growth eased to a survey-record low and was marginal overall. Monitored firms that reported higher new order intakes reflected an increase in new projects and greater export demand.



New Export Orders Index

Q. Please compare the level of new export orders received this month with the situation of one month ago.

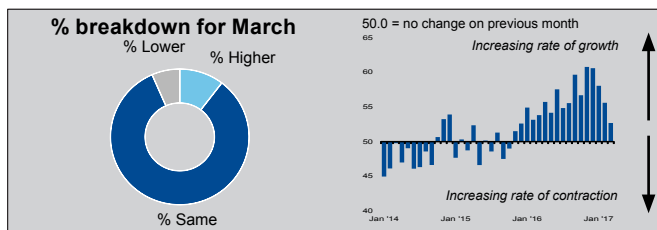
A solid increase in new export work boosted growth of total new orders during March. That said, the rate of expansion eased to an eight-month low and was below the series average. Monitored firms linked the rise in new orders from abroad to greater foreign demand and opportunities arising from new export markets.



Backlogs of Work Index

Q. Please compare the level of outstanding business in your company this month with the situation one month ago.

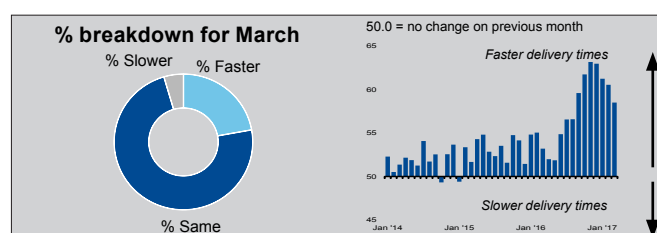
Higher new work inflows placed further pressure on operating capacity during March. The pace of backlog accumulation slowed to the weakest in 15 months, but was solid overall and stronger than the series average. Panellists commented on financial constraints faced by customers and an increase in incoming new business.



Suppliers' Delivery Times Index

Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.

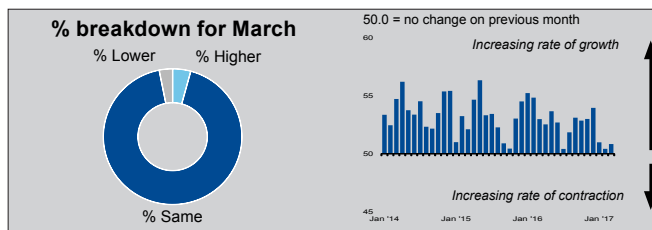
Suppliers' delivery times at Kenyan private sector firms shortened for the twenty-sixth consecutive month. The extent to which delivery times improved was sharp, with around 22% of panel members recording faster lead times. Anecdotal evidence indicated intense competition amongst suppliers.



Employment Index

Q. Please compare the level of employment at your unit with the situation one month ago.

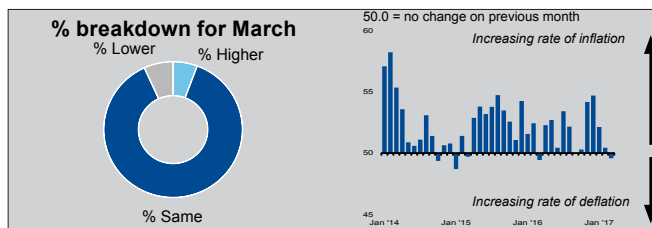
Continuing the trend observed so far in 2017, the pace of job creation was marginal overall. It was also muted in context to historical data, with the vast majority of firms (93%) noting no change in employment since February. Some firms mentioned that they hired staff due to new projects and increased new business, whereas others reported that some employees voluntarily left to search for better opportunities.



Output Prices Index

Q. Please compare the average prices you charged this month with the situation one month ago.

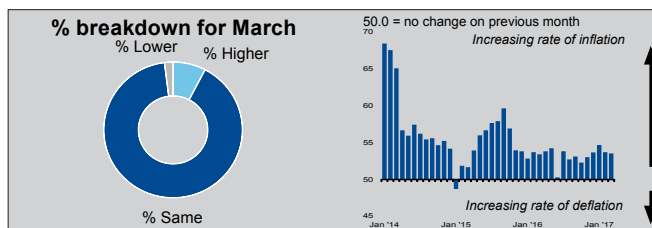
For the first time in a year, the seasonally adjusted Output Prices Index posted below the 50.0 crucial threshold, to signal Kenyan private sector firms reduced output charges during March. That said, the rate of decline was marginal overall. Underlying data indicated that firms offered discounts to attract customers.



Overall Input Prices Index

Q. Please compare your overall average input prices this month with the situation one month ago.

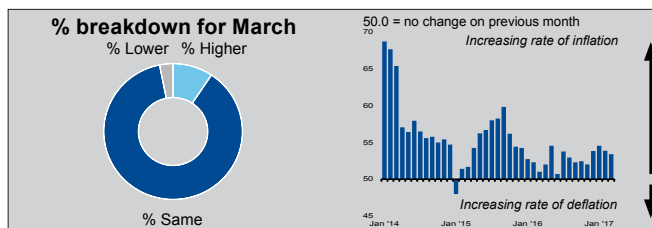
Despite softening since the prior month, total cost pressures remained marked at the end of the first quarter. That said, the rate of inflation was weaker than the series average. Underlying data indicated that the overall increase was driven by rises in both purchasing and staff costs, with the sharper expansion in the former.



Input Costs: Purchase Prices Index

Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.

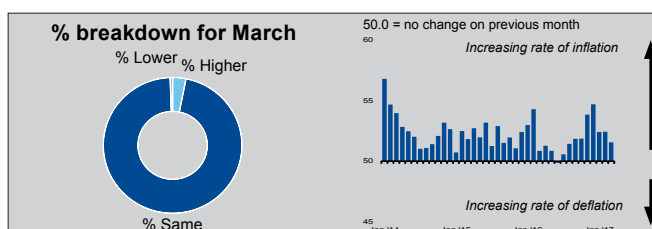
Purchasing costs again indicated a similar trend to overall input prices at the end of the first quarter of 2017. The rate of inflation was the weakest in four months, but solid overall. A number of companies mentioned a general increase in market prices of raw materials, alongside rising transportation costs.



Input Costs: Staff Costs Index

Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.

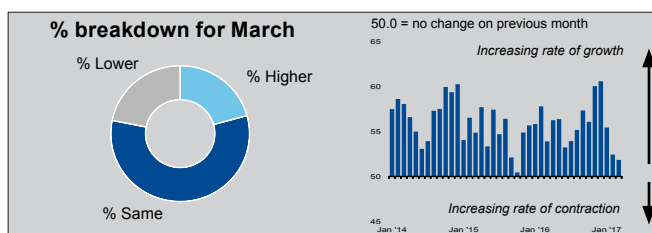
The ongoing increase in staff costs was extended into March for the ninth consecutive month. That said, the pace of wage inflation eased to a seven-month low, as the vast majority of firms (96%) noted no change in average salaries. Firms that increased wages attributed this to efforts to motivate staff.



Quantity of Purchases Index

Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.

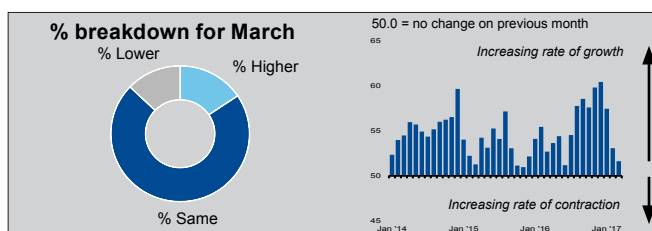
As has been the case since the inception of the series in January 2014, purchasing activity increased during March. Nevertheless, the overall rate of expansion was modest and eased to the weakest in 17 months. According to anecdotal evidence, forthcoming new projects and expectations of further improvements in demand had prompted some firms to raise their input buying.



Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.

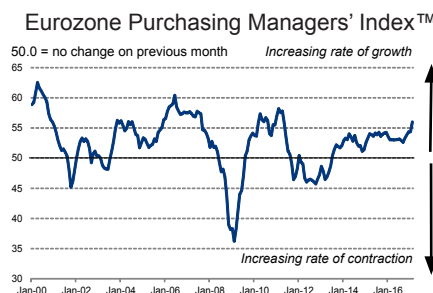
Stocks of raw materials and semi-manufactured goods rose again during March. That said, the rate of accumulation was modest and eased to the weakest in nine months. Roughly 16% of panellists noted a rise in inventories, compared to 13% that posted a fall. Growth was reported to reflect positive projections for demand over the coming months.



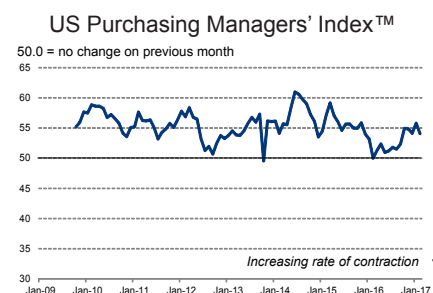
International PMI summary



Sources: Caixin, IHS Markit



Source: IHS Markit



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The Caixin China Composite PMI data (which covers both manufacturing and services) indicated a slight improvement in the rate of output expansion across China in February. The Composite Output Index rose from January's four-month low of 52.2 to stand at 52.6 in February, to signal a moderate increase in overall Chinese business activity.

Growth of eurozone economic output accelerated to a near six-year record in February. At 56.0, up from 54.4 in January, the Markit Eurozone PMI Composite Output Index rose to a 70-month high.

Adjusted for seasonal influences, the Markit U.S. Composite PMI Output Index fell from 55.8 in January to 54.1. February's reading was indicative of a robust expansion in private sector activity. That said, it also pointed to a slowdown in growth – the index was down from January's 14-month high and below the average since the series started in October 2009 (55.3).

Notes on the Data and Method of Presentation

The Purchasing Managers' Index™ is based on data compiled from monthly replies to questionnaires sent to purchasing executives in approximately 400 private sector companies, which have been carefully selected to accurately represent the true structure of the Kenyan economy, including agriculture, mining, manufacturing, construction, retail and services. The panel is stratified by Standard Industrial Classification (SIC) group, based on industry contribution to GDP. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The Purchasing Managers' Index™ (PMI™) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease. Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

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